

## Budget and elections: two lines that are to cross?

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Before the start of this session it could be predicted with high probability that the main battles in the parliament will be fought about the draft 2002 budget. The session was even referred to informally as «the budget session», and it was suspected that the procedure of adopting the budget might become the stumbling block in the generally positive relations between the government and the parliament.

The state budget for the election year in Ukraine is not just the main financial document but an embodiment of interests of political elites and branches of power. In the pre-election context, the contradictions between different political elites are not just lobbying of interests of specific groups, but also competition between them as participants of the election process. The debates over the budget could serve as an election campaign launching site and the floor for campaign actions – from protests of teachers and miners to pathetic interventions by politicians in the media.

Meanwhile, the process of budget formation in Ukraine is directly linked with a specific phenomenon known as «the administrative resource» – i.e., direct and indirect legitimate methods of influencing the election campaign by state bureaucracy through administrative and financial instruments at the national and local levels. In this context, the possibility to control the distribution of budget funds and channeling the financial resources in a specific direction is an immediate constituent of the «administrative resource».

Hence, parliamentary battles about figures and areas for financing represent, in addition to the desire to have a budget for the state, the competition for the access to the «administrative resource». Obviously, different political forces have different capacities to project influence. Some of the financial-political groups are in immediate proximity to the symbolic budget source, as they are integrated in the state power and have their representatives and lobbyists at the government level and subnational bodies of power. For them the «budget marathon» is a chance to gain more influence than other competitors that have access to the state power. On the other hand, the process is a chance to boost one's image as a defender of the poor and so on. The budget-related sessions in the parliament resemble pre-election rallies, and publications about the process in the party press look like campaign leaflets.

On November 29 the parliament failed to reach agreement on article 1 of the draft budget, proposed by the government and setting revenues, spending and budget deficit. The article was supported by 176 votes «for» out of 414 MPs registered in the assembly. According to the Cabinet's proposal, the budget revenue for 2002 was supposed to be UAH 44.2 billion, and spending was supposed to reach UAH 48.5 billion, with the budget deficit limited at UAH 4.3 billion. However, the Budget Committee of the parliament proposed that the revenue should be set at UAH 52.4 billion, the spending at UAH 54.1 billion, and the budget deficit at UAH 1.8 billion.

The efforts to achieve agreement between the government and the parliament were feeble. Below we will try and review the causes of the confrontation that belong both to the economic and political fields. Not lastly, the tension was caused by the fight for the access to the notorious «administrative resource».

On October 6, discussing the draft budget in the parliament, head of the Budget Committee Oleksandr Turchynov urged the MPs not to approve the proposed draft budget in the second reading. He argued that his committee proposed to adopt a zero-deficit budget which would allow to prevent uncontrolled spending of funds during the election campaign. According to Turchynov, the government had failed to make any changes to the draft between the first and the second readings and had not added «a single copeck» for funding of social security programs, as the MPs had insisted. However, according to Turchynov, the government resorted to «additional pressure and intimidation» of MPs in order to force them to vote in favor of the draft budget (UNIAN, December 6, 2001).

In his turn, Prime Minister Anatoly Kinakh sent a letter to the parliament arguing that further increase

of the budget spending for about UAH 1 billion could be possible only after making changes to the taxation laws. The government submitted the relevant draft bills to the parliament on September 15, 2001 together with the draft budget. The letter also asked MPs to adopt the budget in the second reading, taking into account the expressed proposals, and pledged to continue working on some articles for the third reading. It also stressed that the proportion of local budgets in the consolidated budget exceeded 40 percent, compared to 36.6 percent in the 2001 budget. The appropriations for education were increased by UAH 2.4 billion compared to the 2001 figure, including the additional UAH 311 million that would allow full funding of the education sphere in accordance with Article 57 of the law «On Education» beginning with September 1, 2002. The spending for health care was also increased by UAH 770 million compared to 2001.

However, the new voting also failed to overcome the 226-vote pass barrier (only 211 voted were cast «for» the bill). To a certain extent, the result may be attributed to the position of the Communists, the Socialists and the Batkivshchyna factions. «It is unclear how the government wasted the week it had been given by the parliament to improve the draft», lamented Turchynov (Den, December 7, 2001). The MPs returned the draft bill for the repeated second reading by 363 votes.

One of the stumbling blocks in the budget process is the issue of including the revenue from privatisation to the revenue part of the budget. Noteworthy, last year that issue caused significant delay in the adoption of the budget. The inclusion of the expected UAH 9 billion from privatisation to the revenue part was a significant point of the 2001 budget. Later on, the figure was substantially reduced. At that time many of MPs, both from the center and the right, believed it would be possible to receive no more than one third of the planned amount.

It looks like the government and the parliament have swapped places compared to the 2000 situation. Now the Cabinet insists that the privatization revenue should not be included in the budget. According to Anatoly Kinakh, the privatization money are a temporary resource of the state and should be channelled for economic development and other strategically important and urgent issues. Therefore, the government proposed to use the privatisation money for priority investment and innovation programs (UAH 1.2 billion), reducing the state debt (UAH 2.7 billion), other development programs (UAH 1.7 billion). According to the Prime Minister, the money should not be used for consumption, but for raising competitiveness of the Ukrainian economy.

Minister of Finance Igor Mitiukov, who presented the draft budget to the MPs, noted that inclusion of the unstable privatisation money to the revenue part of the budget could destabilize the situation in the state. In his opinion, that revenue «was not hidden», it «should be channelled for development of economy, solution of strategic tasks» and be included in a special chapter of the budget (Den, December 7, 2001).

However, the Budget Committee, probably, has a different view on the government's initiative. Oleksandr Turchynov actually accused the government and the prime minister of «hiding revenues from privatisation» in order to use them «in the future election race» (Den, December 7, 2001), claiming that since Anatoly Kinakh had decided to run, he would need the money.

Hence, to date the budget process has been blocked. Though, First Vice Speaker Victor Medvedchuk argued he «disagreed with the assessment that the budget process had been made to collapse; it has just been delayed, which is a different thing». He stressed that «nothing terrible has happened, and [I] would not wish to dramatise the process, for there is still some time left, and the Verkhovna Rada may approve the draft budget on December 13 and December 20» (UNIAN, December 7, 2001).

The prime minister is also committed to continuing the process, arguing that the government is prepared to hold consultations with MPs to agree on all disputed articles and issues and approve the 2002 budget.

In fact, the budget theme is gaining new nuances and overtones, as the election campaign unfolds. After the announcement of Anatoly Kinakh's decision to join the block «For United Ukraine!» the tension has escalated. Yet, it is possible that the «economic constitution» for the next year will be approved before December 31, as prolongation of final decisions about the budget is not in the interests of a number of forces within the parliament.

On the other hand, the pre-election logic «the worst the better» may dominate, and then the prolongation of the budget process and final adoption of a populist budget are guaranteed. The chair under head of the Budget Committee and leader of the Batkivshchyna faction Oleksandr Turchynov can shake again. The government, though, is unlikely to fall before the elections, as it is not in the habit of Ukrainian power-brokers to «change horses on the bridge».

In addition to economic problems, the failure to adopt the budget threatens with a political crisis and yet another deterioration of relations between the parliament and the president. Leonid Kuchma already announced that «in the world practice, for failing to adopt the budget», according to the constitution, «the parliament goes to the non-existence» (Den, December 8, 2001). Though the Ukrainian law specifies no responsibility for the failure to adopt the budget, but the pre-electoral image is likely to force the MPs pull themselves together.

Anyway, in the light of Anatoly Kinakh's political career in the «For United Ukraine!» block the budget process gets not just economic hue. After the arrival of the presidential chief of staff Volodymyr Lytvyn to the leadership of the block, the entity was branded as the «power block», and Kinakh's decision to join made it a «double-power block». The presence of the two top bureaucrats is a more than clear hint to local officials as to how their political preferences should be targeted.

Anatoly Kinakh's electoral ambitions had been discussed for a long time, but his final decision was announced only at the end of November, when leader of the Party of the Regions and head of the State Taxation Administration Mykola Azarov announced that Kinakh had agreed to become «number two» on the block's election list after Volodymyr Lytvyn (Den, November 29, 2001). The announcement was repeated by leader of the Trudova Ukraina Serhiy Tihipko. By the way, the second number in the «pro-government» list, given to the head of the government after the presidential chief of staff clearly showed who would run the show.

On November 28, Anatoly Kinakh personally announced that his Party of Industrialists and Entrepreneurs had joined the «For United Ukraine!» block, because «political parties have to consolidate their efforts to create in Ukraine a professional and democratic parliament that can work for the interests of the state» (UNIAN, November 28, 2001). Attending the congress of the People's Democratic Party (PDP) in Kharkiv on December 1, Kinakh sat in the presidium. The official agreement on the formation of the block «For the United Ukraine!» is expected to be signed by leaders of the five parties at the Unification forum on December 15. Today the block includes the Trudova Ukraina, the Party of the Regions, the PDP, the Agrarian Party and the Party of Industrialists and Entrepreneurs.

Hence, the prime minister can also be considered by politicians as a competitor in the election race, and not only in the matter of fighting for the «administrative resource». Any criticism of the government, even well deserved, is likely to be perceived in the election context/ On the other hand, the protest rhetoric and references to the pre-election realities are good for the government itself, as many drawbacks can be written off as «casualties» of the election time. However, the situation may provoke a new crisis in the already unsteady relations between the branches of power – with all the consequences to follow.